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The Manufacturers Hanover
Financial Digest
Economic Commentary, Selected Financial Data, and Business Indicators

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Lower Oil Prices . . .

January's economic events were dominated by news of a sharp decline in crude oil prices and speculation on what such a development implies for the U.S. and for other economies. Despite an initial chorus of negativism, lower oil prices will turn out to be a welcome tonic for global growth. The importance of oil to the world's economic health is so great that any significant change in prices can contribute to a decline or an expansion of real output and to a rise or fall in the rate of inflation. While it is still too early to assess at what level oil prices will stabilize and what effect the lower oil-price structure will have on the financial situation in parts of the U.S. and elsewhere, there is little doubt that lower oil prices will contribute to global economic growth while putting a damper on inflation and on interest rates. That spells particularly good news for the non-oil producing developing countries which have suffered from high energy costs and lower demand for their commodities because of lackluster economic growth in the industrialized nations.

. . . Enhance The Business Outlook . . .

The drop in oil prices also brightens the U.S. business outlook at a time when the recovery seems to be losing some of its steam. According to the Commerce Department, the nation's output of goods and services rose at an inflation-adjusted annual rate of only 2.4 percent in the final quarter of 1985, 0.8 percentage points lower than reported in the so-called "flash" GNP estimate a month earlier. What is more, this modest growth was accompanied by higher inflation. The GNP price deflator—the broadest measure of inflation—was revised to a 3.3 percent annual rate of rise for the October-December period, compared with the 2.9 percent annual rate of increase in the preceding three months.

The primary factor behind the downward revision of GNP growth in the fourth quarter was the continuing surge in real imports which grew 13 percent at an annual rate during that period, suggesting that the dollar's decline has yet to help increase the share of U.S. demand satisfied by domestic producers. Because of this continuing leakage of domestic demand abroad, and despite a healthy eight percent rise in U.S. real exports—which finally reversed a string of declines in the preceding three quarters—the inflation-adjusted net export deficit deteriorated by almost $8 billion in the fourth quarter compared with the third. If the U.S. net export position had remained unchanged, U.S. GNP growth in the final quarter of 1985 would have been equal to the flash estimate—3.2 percent.

. . . As The Expansion Enters Its Fourth Year

The U.S. economy should experience a better performance this year than it did in 1985 and the drop in oil prices enhances this outlook. This improvement will be no small accomplishment in view of the fact that we have now completed 38 months of business expansion, and only two of the previous postwar peacetime recoveries lasted longer. The GNP after adjusting for inflation, is expected to increase at least 3½ percent this year compared with only 2-1/3 percent in 1985. The growth should be better balanced, with the goods-producing sector making more of a contribution this year than last, when services provided most of the thrust.

Consumer spending will continue to bolster the expansion. The record level of employment—both in terms of the number of people at work as well as when compared with the over-16 population—will provide consumers with good-sized gains in income and consequently with increased buying power. The rallies in both the stock and bond markets over the past three months have substantially increased the value of investors' assets—not to mention consumers' confidence—allowing people to continue a high rate of spending.

The outlook for business capital spending is less bright. Capacity utilization rates nationwide still stands at 80.5 percent—about five full percentage points below the level usually prevailing at this stage of the business cycle. The capital spending outlook is also clouded by the uncertainty associated with proposed tax reform legislation. As a result, business capital spending will be lackluster this year until the tax situation is clarified.

Another major factor in the acceleration of GNP growth will be the gradual improvement in the U.S.

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Selected Federal Reserve Data

	Week Ending 1/29/86		
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs			
Loans to Depository Inst.			
Float			
Total Reserve Bank Cred.			
Treasury Deposits with			
Federal Reserve Banks			
Currency in Circulation			
Gov'ts held for Foreign Acct. by F.R. Banks (End of Week)			
	1/29/86		
Member Bank Reserves			
Total Reserves Held			
Excess (Deficiency)			
Net Free Reserves			

Monetary Aggregates †

M1	(1/20/86)		
M2	(December '85)		
M3	(December '85)		
Domestic Nonfinancial Debt (3rd Q '85)			

†Seasonally adjusted.

New York Money Market

Offering Rates 1/31/86			
U.S. Treasury Bills	6.90%	7.00%	7.04%
* Federal Agencies	7.25	7.30	7.25
* Municipal Notes - High Grade (40% Taxable Equivalent)	9.26	9.44	9.72
Negotiable Time CDs:			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market - Prime	7.74	7.75	7.80

‡ Finance Company Paper - Prime		‡ * Bankers' Acceptances	
5 - 14 days	7.70%	Mar.	7.70%
15 - 29 days	7.75	Apr.	7.65
30 - 59 days	7.70	May	7.60
60 - 89 days	7.65	Jun.	7.55
90-179 days	7.55	Jul.	7.55
180-239 days	7.50	Aug.	7.50
240-270 days	7.50		

Industrial Paper - Prime			
30 - 89 days	7.65%	†Federal Funds	
90-120 days	7.45	Effective Rate	8.05%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

				Year Ago Period
Gross National Product (Current Dollars)*			$ 4,017	$ 3,853
Gross National Product (1982 Dollars)*			$ 3,584	$ 3,516
Percent Change, Annual Rate			3.0	0.6
Change in Consumer Prices*			7.2%	3.6%
Change in Producer Prices*			9.6%	0.0%
Civilian Employment (Thousands of Persons) †			107,969	106,248
Unemployment as % of Civilian Labor Force†			7.0%	7.2%
Personal Income*			$ 3,347r	$ 3,207
Leading Indicators Composite Index (1967=100)†			172.0r	164.1
Industrial Production Index (1977=100) †			125.1	123.3
Net Change in Consumer Installment Credit †			$ 8.13	$ 6.08
U.S. Merchandise Trade Balance †			$ 13.68	$ 8.03
Plant and Equipment Expenditures*			$388.98(a)	$371.16
Private Housing Starts (Thousands of Units)*			1,566	1,630
New Construction Expenditures*			$ 346.3	$ 313.1
Total Business Inventories †			$ 582.2	$ 571.2
Total Business Sales †			$ 426.0	$ 417.6

*Seasonally adjusted annual rate. †Seasonally adjusted. p Newly reported figure r Revised. a Anticipated.

Short Term Rates Continued

Time Deposits of
$100,000 or more
Weekly Reporting Banks

Nationwide (1/15/86)	[illegible]	[illegible]	[illegible]
New York City (1/22/86)	[illegible]	[illegible]	[illegible]
Commercial Paper (1/22/86)	[illegible]	[illegible]	[illegible]

Bank Loans

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks		Change Since Last Week	Change Since Year Ago
Nationwide (1/15/86)	[illegible]	– 696	+ 5,590
New York City (1/22/86)	[illegible]	272	– 2,229

Total Loans and Leases Gross Adjusted

		Change Since Last Week	Change Since Year Ago
Nationwide (1/15/86)	[illegible]	+ 2,922	+ 71,050
New York City (1/22/86)	[illegible]	– 5,973	+ 16,965

Financial Markets

	Friday 1/31/86	Change Since Week Ago	Week Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	[illegible]	+ .02	7.41
180-Day Bills†	[illegible]	+ .01	7.09
Longest Bills†	[illegible]	.12	7.39
Recent Issues:			
8¼s 1/31/88	[illegible]	.17	
8¾s 12/31/89	[illegible]	.18	
9¼s 11/15/95	[illegible]	.14	
9⅞s 11/15/15	[illegible]	.11	
Municipals:			
Bond Buyer–20 Bond Index* (1/30/86)	[illegible]	.10	7.51
Blue List Total ($ Million)	[illegible]	+ $746	$ 286
30-Day Visible Supply ($ Million)	[illegible]	$967	$3,065
Total	[illegible]	$221	$3,361
Corporates:			
Moody's Aa Composite (1/30/86)	[illegible]	.06	7.85
30-Day Visible Supply ($ Million)	[illegible]	$440	+ $ 740
Stocks:			
Dow Jones Averages:			
Industrials	[illegible]	+ 41.06	+ 293.27
Transportation	[illegible]	+ 8.55	+ 138.52
Utilities	[illegible]	+ 5.70	+ 28.26
65 Stocks	[illegible]	+ 14.59	+ 115.47
N.Y.S.E. Composite Index	[illegible]	+ 2.81	+ 18.90
N.Y.S.E. Avg. Daily Vol. for Week (000's)	[illegible]	+25,494	+ 15,756

* 46% Taxable equivalent 14.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/31/86	Week Ago
Overnight	[illegible]	7.69%
1 month	7.94	8.06
3 month	7.94	8.06
6 month	8.00	8.06
1 year	8.12	8.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	9.05	9.20%
Long Term (7 to 15 yrs.)	9.60	9.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/31/86)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02046	48.8800
Canada	.7021	1.4243
Denmark	.1141	8.7630
France	.1383	7.2308
Germany	.4186	2.3887
Italy	.0006142	1628.10
Japan	.005182	192.96
Mexico	.002235	447.50
Netherlands	.3705	2.6989
Switzerland	.4931	2.0279
U.K.	1.4130	.7077



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